

VZCZCXRO2640
OO RUEHAP RUEHBZ RUEHDT RUEHGI RUEHKN RUEHLMC RUEH MJ RUEHMR RUEHPA
RUEHPB RUEHRN RUEHSK
DE RUEHC #3489/01 3571724
ZNR UUUUU ZZH
O R 221714Z DEC 08
FM SECSTATE WASHDC
TO MCC COLLECTIVE IMMEDIATE
MCC THRESHOLD COLLECTIVE IMMEDIATE
MCC CANDIDATE COUNTRY COLLECTIVE IMMEDIATE
INFO ALL OECD CAPITALS COLLECTIVE
RUEHBS/USEU BRUSSELS
RUEHLMC/MCC WASHINGTON DC 0110
RUEATRS/TREASURY DEPT WASHINGTON DC 0036
RHEHNSC/NSC WASHINGTON DC 2334

UNCLAS SECTION 01 OF 06 STATE 133489

SIPDIS
ALSO FOR USAID (PDELP/JLANGE)
USTR FOR EBRYAN
TREASURY FOR BPELTON

E.O. 12958: N/A

TAGS: [EAID](#) [PREL](#) [PGOV](#) [ETRD](#) [ECON](#) [KMCA](#) [MCC](#)

SUBJECT: MILLENNIUM CHALLENGE CORPORATION (MCC) BOARD
SELECTS COUNTRIES FOR FISCAL YEAR 2009

¶1. Action request for action addressees (FY09 MCA Compact Eligible and Threshold Eligible countries) in paragraph 11.

¶2. SUMMARY. The Millennium Challenge Corporation's (MCC) Board of Directors met December 11, 2008, and selected three new countries -- Indonesia, Zambia, and Colombia -- as eligible for Millennium Challenge Account (MCA) Compact assistance for fiscal year 2009 (FY09). The Board also selected one new country, Liberia, as well as a formerly Compact-eligible country Timor-Leste, as eligible for a Threshold program. This cable provides guidance on the FY09 MCC selection process as well as talking points for:

- all countries (paragraph 12),
- new Compact-eligible countries (paragraph 13),
- new Threshold countries (paragraph 14),
- Paraguay, which was reselected for a Stage II Threshold program (paragraph 15),
- countries currently implementing Compacts (paragraph 16),
- candidate countries not selected for FY09 (paragraph 17),
- and
- donor countries (paragraph 18).

For additional talking points, please contact MCC. Letters from MCC CEO Ambassador John Danilovich will be provided separately by email for delivery by Posts to heads of government of FY09 MCA Compact eligible and Threshold eligible countries. During the December 11 Board meeting, the Board expressed ongoing concerns about policy performance in Armenia and suspended the Nicaragua Compact program due to policy concerns. END SUMMARY.

¶3. MCC's Board of Directors met December 11, 2008, to select countries as eligible for MCA Compact and Threshold assistance for FY09. The Board selected three new Compact eligible countries: Indonesia, Zambia, and Colombia. The Board also re-selected five countries that are developing but have not yet signed Compacts: Jordan, Malawi, Moldova, the Philippines, and Senegal. The Board did not reselect three countries that were previously eligible to develop Compacts but had not yet finalized an agreement: Bolivia, Timor-Leste, and Ukraine. The Board selected Timor-Leste to participate in a Threshold program. The MCC this year discontinued the practice of annually making eligibility determinations for countries with signed Compacts since MCC's legislation does not require reselection every year in order for countries already implementing their compacts to continue their programs.

¶4. The Board selected two countries as Threshold eligible:

one new country, Liberia, and one formerly compact-eligible country, Timor-Leste. The Board also reselected Paraguay for Stage II Threshold eligibility. Paraguay was made eligible for Stage II assistance last year but has not yet signed an agreement and needs 2009 funds to continue program development. The Board did not re-select Yemen for Threshold eligibility.

BACKGROUND

15. MCC supports programs that aim to reduce poverty and promote sustainable economic growth in the poorest countries of the world that have demonstrated a broad commitment to sound development policies. This commitment is measured by performance on 17 independent, third-party indicators grouped into three broad policy categories: Ruling Justly, Investing in People, and Economic Freedom. In determining eligibility, the Board considers whether a country performs above the median relative to its income-level peers on at least half of the indicators in each of the three categories and on the Corruption indicator. The Board also weighs heavily countries, performance on the three democracy indicators (Political Rights, Civil Liberties, and Voice and Accountability). To address limitations of the indicators -- including gaps, time lags, trends and other factors not adequately captured -- the Board takes into account supplemental quantitative and qualitative information.

STATE 00133489 002 OF 006

16. The Board also considers the opportunity for economic growth and poverty reduction and the availability of funds appropriated for MCC. Regardless of the fiscal year of initial selection, there is no guarantee that any MCA-eligible country will reach a Compact agreement with MCC or will receive funding. Compact finalization also depends on the quality of the country's program proposal and the funds available to MCC.

17. Candidate Countries: MCC's Board of Directors identified 93 candidate countries for FY09 from which eligible countries could be selected and 11 countries that are not candidates due to statutory restrictions. The 93 candidate countries identified for FY09 fall into two groups:

- Low Income Countries (LICs), defined as countries with a Gross National Income (GNI) per capita of \$1,785 or less, and
- Lower Middle Income Countries (LMICs), defined as countries with a GNI per capita of \$1,786-\$3,705.

Income group classification cutoffs are adjusted annually. There are 64 LIC candidates and 29 LMIC candidates this year. The LMIC category was introduced in FY06 and is accompanied by a legislative restriction on funding; LMICs can only compete for up to 25% of compact funds in a given fiscal year. Candidate countries are listed on the MCC website (www.mcc.gov).

18. New Compact eligible countries: MCC will assign a point of contact in January to provide Posts with guidance on the Compact development process for FY09.

19. Threshold Programs: Countries that have not been selected as Compact-eligible but are close to meeting the indicator criteria and have demonstrated a commitment to making the policy reforms necessary to qualify may be selected as eligible to participate in a Threshold Program. Threshold programs provide eligible countries with an opportunity to apply for financial support for reforms they propose that are intended to improve policy performance in areas where there are weaknesses, as evidenced in the indicators. For more on Threshold programs, please see the relevant section on MCC's website (www.mcc.gov). Selection for a Threshold program does not bar countries from being considered for Compact eligibility. Updated guidance on

developing Threshold proposals for FY09 will be posted on MCC,s website shortly.

¶10. Armenia and Nicaragua: The Board reiterated its concerns about the status of democratic governance in Armenia and underlined its expectations that the Government of Armenia fulfill commitments to implement substantive reforms.

The Board noted that it would again review Armenia's performance and examine continued collaboration with the country during its March meeting. The Board voted to suspend assistance under the MCC Compact in Nicaragua because of actions taken by the Nicaraguan government that are inconsistent with MCC,s eligibility criteria. MCC will therefore not approve disbursements for activities not already contracted by MCA-Nicaragua. The political conditions leading up to, during, and following recent elections in Nicaragua were not consistent with MCC requirements that include a commitment to policies that promote political freedom and respect for civil liberties and the rule of law. The Board called on Nicaragua to develop and implement a comprehensive set of measures to address concerns regarding the government's commitment to democratic principles. The Board will review the response of the Nicaraguan government and determine subsequent actions at its next quarterly Board meeting in March 2009. All posts may draw from this paragraph and a press release available on MCC,s website as background for discussions with host governments. MCC will also make press guidance available to PAOs.

¶11. ACTION REQUESTED: All posts may draw on the background points in paragraph 12, as appropriate. MCC CEO Ambassador John Danilovich has notified the Ambassadors of Indonesia, Zambia, Colombia, and Liberia, of their countries, eligibility and requests that Posts deliver the points in paragraph 13 (Indonesia, Zambia, and Colombia) and paragraph 14 (Liberia, Timor-Leste), along with a letter from CEO

STATE 00133489 003 OF 006

Danilovich informing the leaders of these countries of the results. MCC will send the text of the letter to each Post separately by email. MCC has contacted Posts in reselected countries, and a letter to the head of state regarding their reselection is forthcoming. MCC will also contact and send letters to countries previously selected as eligible to develop a Compact, but not selected this year (Bolivia and Ukraine), as well as to countries currently implementing Compacts. MCC will provide additional country-specific talking points as needed. Embassy Asuncion may refer to the Stage II Threshold program points in paragraph 15; Posts in countries currently implementing Compacts may refer to the points in paragraph 16; and Posts in candidate countries that were not selected may draw on points in paragraph 17. MCC will provide additional country specific points as needed. Posts are encouraged to deliver information about new country selections to donors, drawing on the general background information contained in paragraph 18. Questions from Posts or host governments regarding selection can be directed to MCC,s Office of Development Policy at developmentpolicy@mcc.gov or 202-521-3926.

¶12. BACKGROUND/GENERAL POINTS FOR ALL COUNTRIES:

-- The Millennium Challenge Corporation's Board of Directors has selected three new countries -- Indonesia, Zambia, and Colombia -- as eligible to submit a proposal for MCA compact assistance for Fiscal Year 2009, based on their performance on democratic governance, economic freedom, and investing in people indicators. Selection for Compact eligibility is a recognition of countries for their policy performance in these three broad areas.

-- The Board of Directors used data from 17 independent, third-party indicators to assess the degree to which the country's political and economic policies serve to support broad-based, sustainable economic growth. The Board also

took into account additional quantitative and qualitative information to adjust for gaps, time lags, or other weaknesses in the data to inform its eligibility determinations. The Board also considered MCC,s ability to impact and stimulate economic growth and poverty reduction in a country, as well as the availability of funds.

-- MCC,s report to the U.S. Congress explaining the Board's determination of MCA-eligible countries will be posted on MCC,s website (www.mcc.gov) in the next few days.

-- The Board also reviewed the performance of MCC,s current Compact development partners. Countries that are developing Compacts but have not yet signed agreements were considered for reselection so that they could be eligible for 2009 funds and continue Compact negotiations. The Board reselected five countries to continue developing their Compacts: Jordan, Malawi, Moldova, the Philippines, and Senegal.

-- The Board did not reselect three countries that were previously Compact eligible: Bolivia, Timor-Leste, and Ukraine. (Specific talking points can be made available upon request.)

-- The Board also selected Liberia and Timor-Leste as eligible to submit a proposal for assistance under Threshold programs. Threshold programs help countries that have not been selected as Compact-eligible but are close to qualifying and have demonstrated a commitment to address areas where they fall short on the indicators. Paraguay, which was selected as eligible for a Stage II Threshold Program last year but has not yet signed an agreement, was reselected to continue developing its program.

13. ADDITIONAL POINTS FOR INDONESIA, ZAMBIA, AND COLOMBIA AS NEW MCA COMPACT ELIGIBLE COUNTRIES:

-- Congratulations on being selected as eligible for MCA Compact assistance. This is recognition of the good policies your government has put in place in the areas measured by MCC,s indicators and your country's commitment to ruling justly, investing in its people, and encouraging economic freedom. Experience shows that good policies in these areas are important contributors to development success.

-- A letter from MCC Chief Executive Officer Ambassador John

STATE 00133489 004 OF 006

14. Danilovich will provide official notification of selection and invite your country to submit a proposal for an MCA compact program.

-- While being selected is recognition of relatively good policy performance, assistance is not guaranteed and will be contingent on, among other things, continued strong policy performance.

-- including performance on MCC indicators, the successful negotiation of a mutually agreeable Compact between your country and MCC, approval of the Compact by the MCC Board, and the availability of funds to MCC.

-- To help your country get a solid start, MCC will be in contact with your Ambassador in Washington to provide guidance on working with MCC and the specific steps to developing a Compact proposal for MCA funding.

-- Development of the MCA proposal is your responsibility. The ultimate success of our partnership depends in part on your commitment of human, financial and technical resources to develop a quality proposal.

-- MCC will evaluate your proposal based on its contribution to economic growth and poverty reduction, the quality of the consultative process that informed its development, commitments to policy improvements relevant to the proposed

MCA-program, and other factors. MCC encourages a continuous dialogue between MCC and your country's counterparts throughout the proposal and Compact development process.

-- MCC representatives look forward to discussing all of these issues during an upcoming trip to your country to discuss the program with a broad range of stakeholders both within and outside government.

¶14. ADDITIONAL POINTS FOR LIBERIA AND TIMOR-LESTE AS NEW THRESHOLD COUNTRIES:

-- MCC is built on the premise that aid is most effective when it reinforces sound political, economic, and social policies. We believe sound policies are key to encouraging domestic and foreign investment and increased trade -- the real engines of economic growth.

-- MCC is committed to supporting those countries that are themselves committed to good governance, sound micro- and macroeconomic policies that support the development of the private sector, and investments in their people, including health, education, and sound natural resource management, as these policies create favorable conditions for sustainable economic growth.

-- The selection of eligible countries for Threshold programs was based on performance in these areas. The indicators were used to provide a measure of countries, policies and whether the government has created the conditions that are linked to broad-based sustainable economic growth.

-- Liberia and Timor-Leste have been selected as eligible to participate in Threshold programs. A letter from MCC Chief Executive Officer Ambassador John J. Danilovich will provide official notification of your selection for a Threshold program.

-- Threshold programs are for countries that do not meet the indicator criteria for MCA Compact eligibility but are close to doing so and have demonstrated a commitment to addressing the policy areas where there are weaknesses. These programs provide financial support to bolster those reform efforts in order to help you qualify for future MCA compact eligibility.

-- Please identify a point of contact within your government with whom MCC can correspond and provide greater information about Threshold programs by January 31. Please notify Threshold Programs Managing Director Monica Kladakis (tel: 202-521-3923, email: KladakisMV@mcc.gov) at MCC as soon as this point of contact has been identified.

¶15. ADDITIONAL POINTS FOR PARAGUAY:

-- MCC is committed to supporting those countries that are

STATE 00133489 005 OF 006

themselves committed to good governance, sound micro- and macroeconomic policies that support the development of the private sector, and investments in their populations, as these policies create favorable conditions for sustainable economic growth.

-- Although Paraguay is not yet Compact eligible, we commend you for the progress made on your Threshold program. Last year, the Board decided to continue supporting Paraguay's reform efforts by inviting it to submit a Stage II Threshold Country Plan (TCP).

-- The Stage II TCP submitted by the Government of Paraguay in September is currently under review. We look forward to our continuing partnership.

¶16. ADDITIONAL POINTS FOR COUNTRIES CURRENTLY IMPLEMENTING COMPACTS:

-- MCC,s Board has decided that once MCC makes a commitment to a country through a signed, five-year Compact agreement, MCC will no longer select this country as eligible on an annual basis during the term of the Compact.

-- However, MCC and its Board of Directors continue to closely evaluate each country's policy performance throughout the life of the Compact. Once MCC has made a commitment to a country through a signed Compact, MCC will continue to work with that country as long as it does not demonstrate a pattern of actions inconsistent with the eligibility criteria (i.e., a &significant policy reversal8).

-- If it is determined that a country has demonstrated a significant policy reversal, the Board can hold it accountable by applying the Suspension and Termination Policy.

-- Countries interested in second Compacts, after the expiration of their current Compact, will need to be selected as eligible for funding. While the specific criteria upon which countries will be evaluated for second Compact eligibility have not yet been finalized, they will likely entail a combination of policy performance and successful implementation of the first Compact.

-- For Benin, Cape Verde, El Salvador, Georgia, Madagascar, Mali, Morocco, Mozambique, Namibia, and Vanuatu: Countries that do not meet the indicator criteria, but have not demonstrated a significant policy reversal will receive an invitation from MCC to participate or continue participation in the policy improvement process. Countries participating in the policy improvement process are asked to develop and implement a forward-looking action plan that outlines the steps they plan to take to improve performance on certain policy criteria. They then are expected to periodically report on progress made on the plan.

17. ADDITIONAL POINTS FOR COUNTRIES NOT ELIGIBLE FOR MCA ASSISTANCE FOR FY09:

-- MCC is built on the premise that aid is most effective when it reinforces good governance, investments in health, education, environment, and economic freedom. We believe sound policies are key to encouraging domestic and foreign investment and increased trade -- the real engines of economic growth.

-- MCC is committed to supporting those countries that are themselves committed to good governance, sound micro- and macroeconomic policies that support the development of the private sector, and investments in their populations, as these policies create favorable conditions for sustainable economic growth.

-- The selection of eligible countries was based on performance in these areas. The indicators were used to provide a measure of countries, policies and whether the government has created the conditions that are linked to broad-based sustainable economic growth. (Embassies may wish to customize this talking point by looking at the country-by-country scorecards on the MCC website. If specific talking points are required, please contact MCC.)

STATE 00133489 006 OF 006

-- The MCC Board's decision applies only to U.S. assistance under the Millennium Challenge Account (MCA), not to assistance provided by other U.S. agencies, including the Agency for International Development (USAID).

-- In order to qualify for MCA assistance in future years, countries would need to focus on their efforts to improve policies which support ruling justly, economic freedom, and investments in their people, as measured by MCC,s 17 policy indicators.

¶18. ADDITIONAL POINTS FOR DONORS (for use with donors in eligible countries and by Posts in donor countries):

-- MCC is providing all MCA Compact eligible and Threshold program countries with an official letter notifying them of their selection. The letter to newly eligible countries will invite them to submit a proposal for an MCA Compact or a Threshold program concept paper, as applicable, and advise them of MCC,s intention to travel to these countries.

-- MCC will also provide guidance on the MCA proposal and Compact development process. Guidance documents are available on the MCC website (www.mcc.gov).

-- MCA assistance is not guaranteed but will be contingent on continued strong policy performance, the successful negotiation of a mutually agreeable Compact between the eligible country and MCC, approval of the Compact by the MCC Board, and the availability of funds to MCC.

-- The quality of the country's MCA proposal -- including, among other factors, how well the country has demonstrated the relationship between the proposed priority areas and economic growth and poverty reduction, the quality of the consultative process that informed its development, and commitment to continued policy improvement relevant to the proposed MCA program -- will influence the speed with which a Compact can be negotiated and the amount and timing of any MCA assistance, as well as any recommendation to the Board to approve a Compact.

-- Coordination with other donors is a priority for MCC. MCA-eligible countries will bear the responsibility, in the first instance, for ensuring that MCA programs are well coordinated with the efforts of other donors and their own budgetary expenditures. All Compact proposals will be required to describe the relationship between the proposed MCA-program and the activities of other donors and the host government itself. MCC will work directly with other donors to ensure that this coordination is working.

-- In addition, outreach to and the involvement of various stakeholders is a critical part of the MCC process. During visits to newly eligible countries, MCC teams hope to meet with representatives of central, regional, and local governments of host countries as well as parliamentarians and opposition leaders, civil society, the business sector, and bilateral and multilateral donors.

-- We look forward to opportunities to discuss MCC with donor representatives in capitals, MCA countries, and Washington. Questions from bilateral and multilateral donors may be directed to MCC,s Managing Director for Donor and Multilateral Relations, Richard Morford, at MorfordRA@mcc.gov.
RICE